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In The

Supreme Court of the United States

October Term, 1993

COMPRESSION POLYMERS, INC., SANATEC INDUSTRIES, INC., DELBERT P. KEISLING and ALAN P. KEISLING,

Petitioners,

vs.

SANTANA PRODUCTS, INC.,

Respondent.

Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

1. Whether the decision of the United States Court of Appeals for the Third Circuit, holding that a district court order which directs cancellation of a federal trademark registration pursuant to 15 U.S.C. § 1119 is *not* appealable immediately by the party whose mark has been cancelled, conflicts with this Court's decision in *Carson v. American Brands, Inc.*, 450 U.S. 79 (1981)?

2. Whether this Court should exercise its discretion and resolve a conflict among the respective courts of appeals which apply conflicting and inconsistent tests in determining whether an immediate appeal from an interlocutory order is permitted under 28 U.S.C. § 1292(a)(1), especially when the different tests yield different results, as in the case *sub judice*?

LIST OF PARTIES

All parties to the proceeding below appear in the caption itself.

Pursuant to Rule 29. 1, Petitioner Compression Polymers, Inc. states that it is affiliated with Crane Plastics Company, Inc. of Columbus, Ohio.

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OPINIONS BELOW

On October 29, 1993, the United States Court of Appeals for the Third Circuit entered an opinion and order dismissing the appeal of Petitioner, concluding that the district court order appealed from was not appealable immediately under 28 U.S.C. § 1292(a)(1), this opinion appearing at Number 93-7099. The opinion is reported at 8 F.3d 152 (3d Cir. 1993).

The decision of the court of appeals was issued in response to a February 2, 1993 order of the United States District Court for the Middle District of Pennsylvania which, *inter alia*, directed the cancellation of Petitioner's federal trademark registration, that action appearing at Number 91-00186. The district court order and judgment are not published.

STATEMENT OF JURISDICTION

On October 29, 1993, the United States Court of Appeals for the Third Circuit issued an opinion and order which dismissed the appeal of Petitioner, holding that an immediate appeal of a district court order directing cancellation of Petitioner's federal trademark registration was not appealable immediately under 28 U.S.C. § 1292(a)(1). Petitioner filed a timely petition for rehearing which, by order dated November 30, 1993, was denied. The jurisdiction of this Court to review the judgment of the Court of Appeals for the Third Circuit is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The statutory provisions implicated in this petition are 28 U.S.C. § 1292(a)(1), relating to immediate appeals from interlocutory orders of the district courts of the United States; 15 U.S.C. § 1119, relating to the authority of district courts to enter decrees and orders directing the cancellation of federal trademark registration; and 15 U.S.C. § 1072, relating to registration of a

mark as constructive notice of claim of ownership. The verbatim text of these three subject provisions are set forth below.

28 U.S.C. § 1292. Interlocutory decisions

(a) Except as provided in subsections (c) and (d) of this section, the courts of appeals shall have jurisdiction of appeals from:

(1) Interlocutory orders of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court;

15 U.S.C. § 1119. Power of Court over Registration

In any action involving a registered mark the court may determine the right to registration, order the cancellation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action. Decrees and orders shall be certified by the court to the Commissioner, who shall make appropriate entry upon the records of the Patent and Trademark Office, and shall be controlled thereby.

> 15 U.S.C. § 1072. Registration as constructive notice of claim of ownership.
>
> Registration of a mark on the principal register provided by this chapter or under the Act of March 3, 1881, or the Act of February 20, 1905, shall be constructive notice of the registrant's claim of ownership thereof.

STATEMENT OF THE CASE

The issue presented for review in this Petition is important and points out the need for this Court to provide clarity with regard to what constitutes an immediately appealable order under 28 U.S.C. § 1292(a)(1). The underlying substantive issue concerns a district court order which, in response to a motion for partial summary judgment, concluded that Petitioner's federal trademark registration "SANATEC" should be cancelled on the Registry in the Patent and Trademark Office. Specifically, on February 2, 1993, the United States District Court for the Middle District of Pennsylvania issued a memorandum opinion and order which, *inter alia*, held the following:

> The motion of plaintiff for partial summary judgment as to Count V of the amended complaint is granted, and the Commissioner of Patents and Trademarks is directed to cancel the defendant's U.S. Trademark Registration number 1,609,803 to the extent that it is related to restroom partitions . . .

(27a). It was this order of cancellation of Petitioner's mark from which an immediate appeal was taken to the United States Court of Appeals for the Third Circuit and it was this order which that court

concluded was *not* appealable immediately under 28 U.S.C. § 1292(a)(1).[1]

On February 1, 1991, the Respondent (Santana Products, Inc.) brought an action against Compression Polymers, Inc. and others (hereinafter "Petitioner" or "Compression"). Compression manufactures and sells plastic bathroom partitions and competes therein with Respondent. Following the filing of a first amended complaint, the relief sought by Respondent against Compression was set forth in five separate counts: (1) unfair competition under § 43(a) of the Federal Trademark Act, 15 U.S.C. § 1125(a); (2) infringement of a state registered mark (state law claim); (3) infringement of a mark and trade name valid at common law (state law claim); (4) dilution (state law claim); and (5) cancellation of Compression's federal registration for the mark "SANATEC" pursuant to 15 U.S.C. § 1119. (6a-7a). The trademark claims of Respondent relate to its contention that Compression's federal trademark registration "SANATEC" created a likelihood of confusion with Respondent's mark, "SANTANA".

After substantial discovery and other preliminary motions, Respondent filed a motion for partial summary judgment as to the trademark cancellation claim only, leaving the trademark *infringement* claims, as well as the state law claims, for trial. The district court referred this motion, along with several other motions, to a magistrate who, as to the subject motion, recommended against the granting of summary judgment. *See* Magistrate recommendation. (31a-39a, 49a).[2]

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1. The panel decision concluding that the order was not appealable involved a two to one vote. The dissenting opinion advocated, as Petitioner advocates herein, that, under this Court's holding and analysis in *Carson v. American Brands, Inc.*, 450 U.S. 79 (1981), discussed more fully, *infra*, immediate appellate review was both proper and necessary. (13a-16a).

2. In recommending against the summary judgment motion, the (Cont'd)

However, the district court, by Order dated February 2, 1993, rejected the magistrate's recommendation relating to the denial of summary judgment and instead ordered Compression's trademark registration cancelled. In response, Compression filed immediately a notice of appeal to the United States Court of Appeals for the Third Circuit and, concurrent therewith, filed both a motion for an *ex parte* stay of the order and a Rule 62 stay pending appeal. By orders dated February 18, 1993 and March 18, 1993, the district court granted both the *ex parte* stay as well as the stay pending appeal to the court of appeals. (17a-18a). Additionally, in conjunction with the issuance of the two orders, the district court notified the Commissioner of Patents and Trademarks of the existence of the stay orders with instructions that the cancellation was not to take effect. (18a).[3]

Before the court of appeals, Compression advanced several arguments. It first argued that the granting of a summary judgment motion was inappropriate given the numerous issues of material fact that remained in dispute regarding the alleged confusion. Second, Compression argued that the confusion, if any, was *de minimus*. Third, Compression argued that the district court erred in concluding that summary judgment under the Lanham Act was not

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(Cont'd)
magistrate noted both the existence of several material factual disputes as well as the *de minimus* nature of the proffered examples of confusion, *arguendo* any confusion existed. *See, e.g.*, (39a). The magistrate also recommended that a counterclaim by Compression against Respondent, relating to Respondent's alleged misrepresentation of the quality of its fire retardant goods, be permitted. (46a).

3. The district court did adopt the magistrate's recommendation that Compression's counterclaim be permitted and, at the time of the filing of this Petition, the parties are continuing with discovery and a trial date has not yet been set for either Respondent's remaining trademark infringement claims, Respondent's pendent claims, or Compression's counterclaim.

appropriate based simply upon a "possibility" of confusion standard rather than an objective, reasonable likelihood of confusion standard. Finally, Compression argued that the district court's granting of summary judgment as to the trademark cancellation claim, while leaving unresolved the trademark *infringement* (and other) claims, invited piecemeal litigation and the very real possibility of an inconsistent and absurd result under which a district court would first order cancellation of a defendant's federal trademark registration only to subsequently find that no trademark infringement had occurred.[4]

The court of appeals, *sua sponte*, requested that the parties address, via letter brief, whether an immediate appeal of the cancellation order was proper. Following the filing of the letter briefs, the court elected to refer the matter to the merits panel for disposition. The matter was argued before a three judge panel on September 15, 1993, and by order entered October 29, 1993, two of the three panel members concluded that the cancellation order was not appealable immediately, thus never reaching the merits of Compression's issues on appeal. The third member dissented, reasoning that the cancellation order was in the nature of an injunction and that, under the test for appealability established by this Court in *Carson, supra*, immediate review by the appellate court was both appropriate and necessary. (13a-16a).

In contrast, the majority, without reference to *Carson*, applied its own three-prong test in concluding that an immediate appeal was not proper. Specifically, the majority held that only the following district court orders are reviewable immediately on appeal:

> Orders that are directed to a party, enforceable

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4. Obviously, because of the appellate court's refusal to hear the merits of Compression's appeal, each of these legal issues remains unresolved.

> by contempt, *and* designed to accord or protect "some or all of the substantive relief sought by a complaint" in more than a [temporary] fashion.

(9a).

Applying this three-prong test, the majority went on to conclude that, because the district court order was, technically, directed to the Commissioner of Patents and Trademarks (as opposed to being directed to Compression itself), the order failed to meet the first prong of the test which requires that an order be "directed *to* a party. . . ." (9a-10a). Next, having concluded that the subject order was technically directed to an entity other than Compression (the holder of the federal registration), the majority went on to conclude that Compression would not be subject to contempt for violation of the order. (10a-11a). The majority's rationale is essentially set forth in the following passage of the opinion.

> In fact, the order does not compel Compression Polymers to take any action nor does the order restrain it from doing anything. Thus, Compression Polymers cannot be held in contempt for failing to comply with the order because the order contains no provisions with which it must comply.

(10a).

The majority concluded by suggesting that the order of cancellation did not substantively affect Compression's right to continue to use the mark, (11a), however, as both a legal and practical matter, and as the dissent aptly points out:

> If Compression Polymers continues to represent that it has proprietary rights in the disputed "SANATEC" mark, it does so at the risk of being held liable for damages, and possibly at the risk of receiving other sanctions as well. Cognizant that this situation leaves Compression Polymers between the proverbial "rock and a hard place", I would recognize that the district court's order has the practical effect of granting an injunction, and conclude that the cancellation order is appealable.

(16a).

The dissent also parted company with the majority, both in relation to (a) the case law relied upon, and (b) the "practical" rather than "technical" effect of the subject order. First, unlike the majority, which utilized case law only from its own circuit, the dissent relied upon this Court's opinion in *Carson, supra,* as well as *Gulf Stream Aerospace Corp. v. Mayacamas Corp.*, 485 U.S. 271 (1988), both of which hold that, under § 1292(a)(1), immediate appellate jurisdiction extends to the review of orders that grant or deny injunctions as well as orders which have the "practical effect" of granting or denying injunctions and "have a serious, perhaps irreparable, consequence" which can be "effectually challenged" only by immediate appeal. *See* (13a), *citing, Carson, supra,* 450 U.S. at 84.

Relying on this Court's "practical effect" standard, the dissent went on to note that the order directing the Commissioner of Patents and Trademarks to cancel the SANATEC registration was, in fact, "the granting of an injunction to Santana Products. . . ." (14a). It further noted that, contrary to the conclusory result reached by the majority, the cancellation order was susceptible of enforcement by contempt, albeit a finding of contempt against the

Commissioner for failure to cancel the subject mark. (14a).[5] The dissent concluded by noting that the "practical effect" of the district court's cancellation order was that Compression was prohibited from representing that it enjoys the benefits and protections of federal trademark registration "as surely as if an injunction had been granted to Santana Products." (15a).[6]

In response to the majority opinion and judgment, a timely petition for rehearing was filed. However, on November 30, 1993, an order was entered denying rehearing and this Petition followed. (1a-2a).

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5. As addressed more fully, *infra*, Compression submits that the order also exposed Compression to sanctions if it continued to advertise and represent its status as a holder of federal trademark registration rights in the mark "SANATEC".

6. The dissent also aptly noted that, by seeking summary judgment only as to the cancellation claim, without seeking summary judgment of its trademark *infringement* claim, Respondent was able to obtain "significant and substantive relief and was able 'through strategic piecemeal litigation, to achieve one of its ultimate goals in this lawsuit, that is, the prevention of Compression Polymer's use of "SANATEC" as its trademark . . .' " even though the court had yet to consider Respondent's trademark *infringement* claim. (15a).

REASONS FOR GRANTING THE WRIT

I.

THE DECISION OF THE COURT OF APPEALS, HOLDING THAT A DISTRICT COURT ORDER WHICH DIRECTS CANCELLATION OF A FEDERAL TRADEMARK REGISTRATION IS NOT APPEALABLE IMMEDIATELY BY THE PARTY WHOSE MARK HAS BEEN CANCELLED, CONFLICTS WITH THIS COURT'S DECISION IN *CARSON V. AMERICAN BRANDS, INC.*, 450 U.S. 79 (1981), AND EXPOSES PETITIONER TO SERIOUS AND IRREPARABLE CONSEQUENCES.

In Carson v. American Brands, Inc., 450 U.S. 79 (1981), this Court, faced with a conflict among the circuit courts, granted certiorari to clarify for the circuits those types of interlocutory orders from which immediate appeals should be permitted. As this Court noted in *Carson*, the respective district courts enter a number of interlocutory orders which, although not worded specifically as injunctions, nevertheless have the "practical effect" of an injunction and thus may be the proper subject of an immediate appeal. Although *Carson* dealt with a district court's refusal to accept a consent decree, whereas here the district court affirmatively ordered that certain federal trademark registration protections of a party be cancelled, the principles enunciated in *Carson* are equally applicable here and compel a reversal of the conclusion reached by the court of appeals below.

Carson established an important, logical three-prong test to be followed by the courts of appeals in either accepting or refusing immediate appeals from district court orders. First, a litigant must show that the order has the "practical effect" of either refusing or granting an injunction. Second, if the litigant establishes the "practical effect" requirement, it must show that the order has a "serious, perhaps irreparable consequence". Third, it must show

that the order can be "effectually challenged" only if an immediate appeal and review is permitted. *See Carson, supra,* 450 U.S. at 84.

In refusing Compression's appeal, the majority in the court below totally ignored this Court's "appealability" test established in *Carson* and, instead, proceeded to apply its own three-prong test. However, this test simply constitutes an unauthorized narrowing of the *Carson* holding and results in unreasonable conclusions, such as occurred here, by exposing litigants to significant and irreparable harm. Indeed, as the dissent aptly points out, if the *Carson test* had been applied here, Compression clearly would have met the requirements for immediate review, inasmuch as the district court order was tantamount to an injunction and exposed Compression to serious consequences which could be effectually challenged only if an immediate appeal were permitted. (13a-17a). Unfortunately for Compression, by applying its own, separate three-prong test, the majority effectively voided the protections of the "practical effect" test which appears to be the linchpin of this Court's unanimous holding in *Carson.*

The district court could have issued an order which, rather than being directed to the Commissioner of Patents and Trademarks, ordered Compression itself to undertake the necessary steps in order to effectuate a cancellation of its registration. Indeed, if the district court's language had been revised ever so slightly in this regard, then the order would have been "directed to a party" and thus would have met prong one of the court of appeals' test. Yet, its "practical effect" would have remained identical; *i.e.,* Compression would have lost its federal trademark registration rights in the mark "SANATEC".

It is interesting that, in the majority opinion, the court begins with an acknowledgment that, in determining whether an order is appealable immediately, it is "not constrained by the district court's characterization of the order . . ." but "rather, our crucial

inquiry is as to the practical effect of the order. " (8a). Despite its suggestion that it was looking to the "practical effect" of the order, the court nevertheless refused immediate review because the order directed the Commissioner, rather than Compression, to effectuate the cancellation. *See, e.g.*, (9a-10a). With respect, conditioning "appealability" upon the technical words used by the trial judge, rather than looking to the practical effect of the order, is at complete odds with the logic and policy considerations set forth by this Court in *Carson*, and, as noted below, will result in significant, perhaps irreparable injury to Compression.

If not permitted to appeal immediately the cancellation of its registration, Compression will be harmed significantly. To support this contention of harm, Compression can hardly do better than to refer again to the dissenting opinion which aptly notes that, as a matter of practicality and logic, the order leaves Compression with little choice but to cease using its mark. Without doubt, it must absolutely cease to represent that it enjoys the very important benefits and protections of federal trademark registration. *See* (15a).

Although the majority concludes that the loss of Compression's federal trademark registration does not necessarily affect Compression in any substantial manner, both the majority's analysis and conclusion are simply faulty. Indeed, if federal trademark registration were not a significant benefit, there would be no reason for Respondent to have included a cancellation claim in its complaint and to have moved separately at the summary judgment stage for an order of cancellation. The United States Court of Appeals for the Fourth Circuit has noted previously the very significant benefits associated with a federal trademark registration and, by implication, the loss of that federal registration:

> . . . federal registration confers a number of benefits upon the owner of a mark not available

> at common law: (1) constructive notice of the registrant's claim of ownership of the trademark; (2) *prima facie* evidence of the validity of the registration, of the registrant's ownership of the mark, and of his exclusive right to use the mark in commerce as specified in the certificate; (3) the possibility that, after five years, registration will become incontestable and constitute conclusive evidence of the registrant's right to use the mark; (4) the right to request Customs officials to bar the importation of goods bearing infringing trademarks; (5) the right to institute trademark actions in federal courts without regard to diversity of citizenship or the amount in controversy; and (6) treble damage actions against infringing trademarks and other remedies.

Brittingham v. Jenkins, 914 F.2d 447, 452 (4th Cir. 1990). Clearly, the district court's order of February 2, 1993, compelling cancellation, will result in the removal of each and every one of these benefits which were available to Compression prior to the entry of the subject order.

As noted in *Brittingham*, when the registration is cancelled, Compression will no longer be able to rely upon the constructive notice to third parties of its claim of ownership of the trademark "SANATEC" by virtue of its registration, *See* 15 U.S.C. § 1072.[7]

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7. It is noteworthy that, following the decision of the court of appeals, Respondent's counsel proceeded immediately to the district court and requested that a certified copy of the cancellation order be provided to the Commissioner of the Patent and Trademark Office. Indeed, but for Compression's immediate action in obtaining a stay pending appeal to the court of appeals, the cancellation would already be in effect. Although Compression has now requested the district

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Consequently, a third-party "innocent user" could very well establish exclusive rights to the use of a similar trademark for related goods in a remote area of the country to the exclusion of Compression, which rights would not be extinguished even if Compression were to ultimately prevail on appeal. Thus, absent an immediate appellate review and reversal of the cancellation order, Compression will not be able to rely on this significant benefit of federal registration. In this regard, the majority's suggestion that Compression would not lose its common law right to use the mark because of the cancellation of the registration overlooks the potential and irreparable harm to which Compression is exposed and, in any event, fails to take into account the dilemma which Compression faces if it were to continue to use the mark or reference its federal trademark registration status. Again, as the dissent cogently points out, the suggestion that the order does not restrain Compression from doing anything "exalts from over substance and turns a blind eye to the fact that Compression is denied the use of its federally registered trademark . . . ."[8]

Additionally, the majority's suggestion that Compression

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court to continue its Rule 62 stay until this Court reviews the subject Petition, the district court has yet to rule on the issue.

8. The opinion goes on to reason that the majority decision effectively deprives Compression of the means for reviewing the propriety of the district court's cancellation order in that if "Compression Polymers continues to represent that it has proprietary rights in the disputed 'SANATEC' mark, it does so at the risk of being held liable for damages, and possibly at the risk of receiving other sanctions as well." The dissent concludes by noting that the majority opinion leaves Compression "between the proverbial rock and a hard place," and indeed it does. (16a). Certainly, in enacting and amending the Lanham Act, Congress did not intend to expose those who are diligent in applying for and securing federal trademark registration rights to an immediate loss of those valuable rights without the opportunity to obtain meaningful appellate review.

would not be subject to sanction or contempt is simply erroneous. It is illogical to conclude that, if Compression, in the face of this litigation and the order of the district court, continued to represent that it enjoys federal trademark registration rights, either by express statements or utilization of the symbol "®", the trial court would not entertain a respondent-initiated motion for contempt or similar sanctions.

Had the court below applied the appealability test established in *Carson*, clearly there would have been a different result. The majority's refusal to entertain this important appeal, without any reference to the test established by this Court in *Carson*, represents a significant and unauthorized narrowing of this Court's interpretation of Congress' intent in enacting 28 U.S.C. § 1292(a)(1) and exposes parties such as Compression to serious and irreparable injury if appellate review of orders, such as the one present here, is deferred until all claims are fully adjudicated at the trial court level.[9]

II.

THIS COURT SHOULD EXERCISE ITS DISCRETION BY GRANTING THE WRIT TO RESOLVE A CONFLICT AMONG THE RESPECTIVE COURTS OF APPEALS WHICH IMPOSE CONFLICTING AND INCONSISTENT TESTS IN DETERMINING WHETHER AN IMMEDIATE APPEAL FROM AN INTERLOCUTORY ORDER IS AUTHORIZED UNDER 28 U.S.C. § 1292(A)(1).

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9. Following the district court's issuance of its February 2, 1993 order, Compression made what it believes to be a sound business decision to cease from using the "SANATEC" mark, at least until further appellate review can take place. Nevertheless, Compression incurred substantial costs in acquiring and in advertising the subject mark and does not wish to lose its rights, both statutory and common law, in the mark.

If Compression's appeal had been taken from a district court within either the Fourth, Fifth, Sixth, Seventh or Eighth Circuit, it seems clear that the appeal would have been accepted and the matter substantively reviewed by each of these respective courts of appeals. This is because each of these circuits applies the *Carson* test in determining immediate appealability of interlocutory orders. However, because the Court of Appeals for the Third Circuit applies additionally a separate, narrower and more rigid test, Compression, by virtue of having been sued in the Third Circuit, is deprived of any meaningful appellate review of the district court order which, with respect, was most erroneous and injurious to Petitioner.[10]

A party's ability to obtain meaningful appellate review should not be dependent on the circuit wherein the action has been filed.

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10. Five circuits look exclusively to *Carson* to determine appealability. *See, e.g., Kansas Gas and Electric v. Westinghouse Electric Corp.*, 861 F.2d 420, 422 (4th Cir. 1988); *Sherri A.D. v. Kirby*, 975 F.2d 193, 203-204 (5th Cir. 1992); *United States v. Bayshore Associates*, Inc., 934 F.2d 1391, 1395-1396 (6th Cir. 1991); *Uehlein v. Jackson National Life Insurance Co.*, 794 F.2d 300, 302-303 (7th Cir. 1986), *cert. denied*, 479 U.S. 1034 (1987); *Nordin v. Nutri/System, Inc.*, 897 F.2d 339, 341-342 (8th Cir. 1990). Five of the circuits, including the Third Circuit, seem to follow the dictates of *Carson* at times, but apply additionally the rigid three-prong test used by the court in this case. *See, e.g., Avery v. Secretary of Health and Human Services*, 762 F.2d 158, 160-161 (1st Cir. 1985); *Abish v. Northwestern National Insurance Co.*, 924 F.2d 448, 452-453 (2d Cir. 1991); *Thompson v. Enomoto*, 815 F.2d 1323, 1326-1327 (9th Cir. 1987); *I.A.M. National Pension Fund v. Cooper Industries*, 798 F.2d 21, 23-25 (D.C. Cir. 1986), *cert. denied*, 479 U.S. 971 (1986). Still, other circuits seem to lack any clear, consistent analysis when addressing appealability of orders under § 1292(a)(1). *See MAI Basic Four, Inc. v. Basis, Inc.*, 962 F.2d 978, 982-983 (10th Cir. 1992); *compare, Schulner v. Jack Eckert Corp.*, 706 F.2d 1113, 1114 (11th Cir. 1983) *(citing, Carson* and the technical three-prong test utilized by the Third Circuit) *with Feldspar Trucking v. Greater Atlanta Shippers*, 849 F.2d 1389, 1391 (11th Cir. 1988) (applying only *Carson); see also, Electronic Data System v. General Services Administration*, 792 F.2d 1569, 1575-77 (Fed. Cir. 1986).

Yet, that is precisely what has occurred in this instance and thus necessitates this Court's establishment of a uniform test to determine the appealability of interlocutory orders.

CONCLUSION

Based on the reasons stated above, Petitioner respectfully requests that the Petition for Writ of Certiorari be granted.

Respectfully submitted,

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APPENDIX A — THIRD CIRCUIT'S DENIAL OF PETITION FOR REHEARING DATED NOVEMBER 30, 1993

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 93-7099

SANTANA PRODUCTS, INC.

v.

COMPRESSION POLYMERS, INC.: SANATEC INDUSTRIES, INC.: DELBERT P. KEISLING, JR.: ALAN P. KEISLING,

Appellants

On Appeal from the United States District Court
for the Middle District of Pennsylvania
(D.C. Civil No. 91-00186)

SUR PETITION FOR REHEARING

BEFORE: SLOVITER, *Chief Judge*, and BECKER, STAPLETON, MANSMANN, GREENBERG, HUTCHINSON, SCIRICA, COWEN, NYGAARD, ALITO, ROTH, LEWIS, and WEIS, *Circuit Judges*

The petition for rehearing filed by the appellants Compression Polymers, Inc., Sanatec Industries, Inc., Delbert P. Keisling, Jr., and Alan P. Keisling in the above captioned matter having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the court in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court in banc, the petition for rehearing is denied. Judge

Appendix A

Mansmann would grant rehearing by the court in banc for reasons set forth in her dissenting opinion.

BY THE COURT:
s/ illegible
Circuit Judge

DATED: NOV 30 1993

APPENDIX B — CERTIFIED COPY OF THE THIRD CIRCUIT JUDGMENT DATED OCTOBER 29, 1993

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 93-7099

SANTANA PRODUCTS, INC.

v.

COMPRESSION POLYMERS, INC.; SANATEC INDUSTRIES, INC.; DELBERT P. KEISLING, JR.; ALAN P. KEISLING,

Appellants

On Appeal from the United States District Court for the Middle District of Pennsylvania (D.C. Civil No. 91-00186)

Present: Mansmann, Greenberg, and Weis, *Circuit Judges*

JUDGMENT

This cause came to be heard on the record from the United States District Court for the Middle District of Pennsylvania and was argued by counsel on September 15, 1993.

On consideration whereof, it is now here ordered and adjudged by this Court that the appeal will be dismissed. Costs taxed against appellant. All of the above in accordance with the opinion of this Court.

ATTEST:

Dated: October 29, 1993

s/ P. Douglas Sisk
Clerk

APPENDIX C — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT FILED OCTOBER 29, 1993

Filed October 29, 1993

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 93-7099

SANTANA PRODUCTS, INC.

v.

COMPRESSION POLYMERS, INC.; SANATEC INDUSTRIES, INC.; DELBERT P. KEISLING, JR.; ALAN P. KEISLING,

Appellants

On Appeal from the United States District Court
for the Middle District of Pennsylvania
(D.C. Civil No. 91-00186)

Argued September 15, 1993

BEFORE: MANSMANN, GREENBERG,
and WEIS, *Circuit Judges*

(Filed: October 29, 1993)

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Appendix C

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OPINION OF THE COURT

GREENBERG, *Circuit Judge.*

I.

FACTUAL AND PROCEDURAL HISTORY

This appeal raises a jurisdictional issue which seems not to have been addressed by any court of appeals in a reported opinion. The issue is whether an interlocutory district court order directing the Commissioner of Patents and Trademarks to cancel a trademark registration, in an action in which the Commissioner is not a party, is an injunction within 28 U.S.C. § 1292(a)(1) and

therefore immediately appealable. We conclude that it is not an injunction, and thus we will dismiss this appeal as it has been taken from such an order. In view of this disposition, we need only summarize the background of the case.

The plaintiff-appellee, Santana Products, Inc., manufactures restroom partitions, which it markets under the name "Santana." Though Santana Products claims to have used the "Santana" mark on partitions since 1979 and has registered its mark with the Department of State of the Commonwealth of Pennsylvania, it has not registered the mark with the United States Patent and Trademark Office. The defendant-appellant, Compression Polymers, Inc., also makes restroom partitions and, in keeping with its practice of naming products with the ending "tec," has marketed its restroom partitions under the name "Sanatec." Compression Polymers registered this name on August 14, 1990, with the United States Patent and Trademark Office for use with "Polyethylene Toilet and Urinal Partitions." In its federal application, Compression Polymers indicated that it first used this mark around October 27, 1989.

On February 1, 1991, Santana Products brought this action against Compression Polymers.[1] In an amended complaint, Santana Products sought relief in five counts: (I) unfair competition under section 43(a) of the Federal Trademark Act, 15 U.S.C. § 1125(a); (II) infringement of a state registered mark (state law claim); (III) infringement of a mark and a trade name valid at common law (state law claim); (IV) dilution (state law claim); and

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1. There are three other defendants, Sanatec Industries, Inc., which is a corporation related to Compression Polymers, and two of their corporate officers. We have no need to mention them further in our opinion as Compression Polymers registered the trademark with the Patent and Trademark office.

(V) cancellation of Compression Polymers' federal registration pursuant to 15 U.S.C. § 1119. Santana Products subsequently filed a motion for partial summary judgment on Count V, the claim for cancellation. The district court referred Santana Products' motion to a magistrate judge, who issued a report recommending that the motion be denied.

Santana Products filed objections to the report. On February 2, 1993, the district court issued its opinion disagreeing with the magistrate judge on the cancellation issue. Accordingly, the district court ordered the Commissioner of Patents and Trademarks to cancel Compression Polymers' registration. This order, however, did not terminate the action, as the other counts of the complaint are still pending and Compression Polymers has filed a counterclaim, which also is pending.

II.

DISCUSSION

The parties correctly agree that we do not have jurisdiction pursuant to 28 U.S.C. § 1291 as a final judgment has not been entered in the district court. Compression Polymers argues, however, that we have jurisdiction pursuant to 28 U.S.C. § 1292(a)(1) because the district court's order directing the Commissioner of Patents and Trademarks to cancel its federal registration is injunctive in nature.

The order of February 2, 1993, from which the appeal has been taken, recites in material part:

> the motion of [Santana Products] for partial summary judgment as to Count V of the

> amended complaint is granted, and the Commissioner of Patents and Trademarks is directed to cancel the defendants U.S. Trademark Registration No. 1,609,803 to the extent that it is related to restroom partitions. . . .

While the order does not state expressly that the court is entering an injunction, this omission does not in itself compel us to conclude that it is not an injunction, as "we are not constrained by the district court's characterization of its order." *See Bailey v. Systems Innovation, Inc.*, 852 F.2d 93, 96 (3d Cir. 1988). Rather, our crucial inquiry is as to the practical effect of the order. *See New Jersey State Nurses Ass'n v. Treacy*, 834 F.2d 67, 69 (3d Cir. 1987) ("certain orders not explicitly styled as injunctions may have injunctive effect").

We quite naturally refer to our in banc opinion in *Cohen v. Board of Trustes of University of Medicine & Dentistry*, 867 F.2d 1455 (3d Cir. 1989), for guidance in determining whether an order may be considered injunctive within 28 U.S.C. § 1292(a)(1). In *Cohen* we recognized that not all orders which grant a party relief and which may be enforced by civil contempt are injunctive. For example, an order compelling discovery is not injunctive, even though it might be enforced by contempt. Rather, we stated that to be injunctive for purposes of section 1292, the order must grant or deny a party the ultimate relief sought by it. *Id.* at 1464. But we acknowledged that this factor alone is too broad a basis on which to determine that the court has issued an injunction, for it could describe an order in an action at law. Thus, we stated:

> The chief distinction between actions at law and actions in equity seeking injunctive relief,

> thus lies in the mode of execution. Equity acts on the person, who can be held in contempt for noncompliance.

Id. at 1465.

Therefore, an injunctive order for purposes of section 1292(a)(1) "must not only adjudicate some of the relief sought in the complant; it must also be of such a nature that if it grants relief it could be enforced pendente lite by comtempt if necessary." *Id.* (citing 16 Charles A. Wright et al., *Federal Practice & Procedure* § 3922, at 29 (1977)). Accordingly, we developed a three-part test for determining when an order is injunctive:

> Thus far, injunctions have been defined negatively by delineating orders that are not injunctive. For purposes of 28 U.S.C. § 1292(a)(1) injunctions may be affirmatively defined as follows:
>
> > Orders that are directed to a party, enforceable by comtempt, *and* designed to accord or protect 'some or all of the substantive relief sought by a complaint' in more than a [temporary] fashion.

Id. at 1465 n. 9 (emphasis added) (quoting 16 *Federal Practice & Procedure* § 3922, at 29).

The district court's order only satisfies the last of these requirements. Significantly, the district court's order is not directed to Compression Polymers, but rather to the Commissioner

of Patents and Trademarks. Thus, in some ways, it is analogous to the traditional security devices such as attachment and replevin. *See* 16 *Federal Practice & Procedure* § 3922, at 43 ("Enforcement of the traditional security devices of attachment and replevin is ordinarily thought not to involve an injunction within the meaning of the statute."). Moreover, and probably more importantly, the order is not enforceable by comtempt against Compression Polymers. Rather, as we discuss below, Compression Polymers can continue to use the disputed trademark during the course of the litigation without risk of being held in contempt, though it may be liable in damages for that use. Accordingly, the district court's order is not injunctive in nature, and we lack jurisdiction.

Compression Polymers controverts this conclusion, contending that inasmuch as the order is immediately enforceable[2] and negatively affects its rights, the order is injunctive. However, these circumstances in themselves do not mean that the order is an injunction. Under *Cohen*, the critical inquiry is whether the relief granted by the order can be enforced pendente lite through contempt. *Cohen*, 867 F.2d at 1465.

In fact, the order does not compel Compression Polymers to take any action nor does the order restrain it from doing anything. Thus, Compression Polymers cannot be held in contempt for failing to comply with the order because the order contains no provisions with which it must comply. The order is thus somewhat similar to that of the district court in *American Motorists Ins. Co. v. Levolor Lorentzen, Inc.*, 879 F.2d 1165, 1172-73 (3d Cir. 1989),

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2. Santana Products disputes that the order is designed to take effect immediately because the district court has not yet certified the order to the Commissioner of Patents and Trademarks as provided in 15 U.S.C. § 1119. We do not address this contention because, even assuming that Santana Products is wrong on this point, the order nevertheless is not injunctive.

which we declined to treat as an injunction under 28 U.S.C. § 1292(a)(1). In *American Motorists* we held that a district court order "effectively" defining an insurance company's duty to defend a claim was not appealable inasmuch as it "did not order the company to undertake [anything]" and thus could not be enforced pendente lite by contempt. 819 F.2d at 1172-73. In fact, Compression Polymers' claim for jurisdiction under 28 U.S.C. § 1292(a)(1) is even weaker than the basis for jurisdiction to appeal predicated on the entry of an injunctive order considered in *American Motorists*. After all, the district court did not even suggest that Compression Polymers could not continue to use the mark. Therefore the court, unlike the district court in *American Motorists*, did not define the appellant's, *i.e.*, Compression Polymers' duties.

While we could rest our conclusion on the foregoing reasoning, it is appropriate to observe that a party's right to use a trademark is not dependent on its registration. Thus, in *In re McGinley*, 660 F.2d 481, 484 (C.C.P.A. 1981), the Court of Customs and Patent Appeals stated that the Patent and Trademark Office's refusal to register a person's trademark "does not affect his right to use it." In *Volkswagenwerk Aktiengesellschaft v. Wheeler*, 814 F.2d 812 (1st Cir. 1987), the Court of Appeals for the First Circuit, after citing *McGinley*, stated, "as this court has held, the cancellation of a trademark registration does not extinguish common law rights the registration did not create" *Id.* at 819. It therefore follows that inasmuch as the right to use the mark arises from prior use, and not from federal registration, Compression Polymers will not lose its right to use the mark simply because of the cancellation of its registration. Indeed, Santana Products acknowledges in its letter addressing our jurisdiction that Compression Polymers "has not been ordered to do anything and it is free to continue its use of the trademark 'Sanatec' until it is permanently enjoined."

Appendix C

Compression Polymers cites *Wrist-Rocket Mfg. Co. v. Saunders Archery Co.*, 516 F.2d 846 (8th Cir.), *cert. denied*, 423 U.S. 870, 96 S.Ct. 134 (1975), in support of its contention that we have jurisdiction. In *Wrist-Rocket*, a trademark infringement case with related claims, the parties appealed from the district court's order resolving liability issues on certain claims even though damages issues remained open. The court of appeals held that it did not have jurisdiction to review the district court's order with respect to these issues, but that it did not have "jurisdiction, pursuant to 28 U.S.C. § 1292(a)(1), to examine the merits of that part of the order granting to the appellee a permanent injunction [against the use of the trademark] and ordering the cancellation of the appellant's registration." *Id.* at 849 (footnote omitted). Thus, *Wrist-Rocket* is distinguishable from this case, because the district court in *Wrist-Rocket* issued an injunction forbidding the use of the mark. There is no suggestion in *Wrist-Rocket* that the court would have exercised jurisdiction in the absence of the injunction, which unquestionably was appealable.[3]

In view of the aforesaid the appeal will be dismissed.

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3. Inasmuch as *Wrist-Rocket* clearly is distinguishable, we do not comment on whether we agree that an order for cancellation should be appealable when it accompanies an interlocutory injunction.

Appendix C

Mansmann, J., dissenting

I respectfully dissent because I disagree with the conclusion reached by the majority that the cancellation of a federally registered trademark is not immediately appealable and that we, therefore, lack jurisdiction in this case. Because I find that the district court's order directing the Commissioner of Patents and Trademarks to cancel Compression Polymer's federal trademark registration is injunctive in nature and in practical effect, I would conclude that we have jurisdiction over this appeal pursuant to 28 U.S.C. § 1292(a)(1).

Section 1292(a)(1) provides that the courts of appeals shall have jurisdiction of appeals from "[i]nterlocutory orders of the district courts of the United States . . . granting, continuing, modifying, refusing or dissolving injunctions. . . ." Our jurisdiction pursuant to § 1292(a)(1) extends to the review of "orders that grant or deny injunctions *and orders that have the practical effect* of granting or denying injunctions and have 'serious, perhaps irreparable, consequence.' " *Gulfstream Aerospace Corp. v. Mayacamas Corp.*, 485 U.S. 271, 287-88 (1988) (emphasis added) (*citing Carson v. American Brands, Inc.*, 450 U.S. 79, 83 (1981). *See also United States v. Santtini*, 963 F.2d 585, 590 (3d Cir. 1992). To fall within the scope of 1292(a)(1) and be deemed an "injunction", the order must be directed to a party, enforceable by contempt and designed to accord or protect some or all of the substantive relief sought by a complaint. *Id.* at 591. As we concluded in *Cohen v. Board of Trustees*, 867 F.2d 1455 (3d Cir. 1989) (en banc), the "label" put on the order by the district court does not prevent us from treating it as an injunction for purposes of 1292(a)(1). *Id.* at 1466 (citations omitted.)

Thus, as the majority observes, the fact that the district court's

order here does not expressly state that the court is entering an injunction does not compel the conclusion that the order is not an injunction, as "we are not constrained by the district court's characterization of its order." *Bailey v. Systems Innovation, Inc.*, 852 F.2d 93, 96 (3d Cir. 1988); *New Jersey State Nurses Assoc'n v. Treacy*, 834 F.2d 67 (3d Cir. 1987). Rather, our inquiry must focus on the practical effect of the district court's order.

Here, the practical effect of the district court's order directing the Commissioner of Patents and Trademarks to cancel Compression Polymer's trademark registration is the granting of an injunction to Santana Products. In addition to claims of unfair competition, infringement of state trademark (both statutory and at common law) and dilution of Santana's business reputation, Santana Product's complaint sought cancellation of Compression Polymer's federal trademark registration. Thus, the district court order grants precisely to Santana Products an important aspect of the ultimate relief it seeks.

In addition, the order is susceptible of enforcement by contempt. As the majority observes, the order is not directly enforceable by contempt *pendente lite* against Compression Polymers. It is the Commissioner of Patents and Trademarks that would be the subject of contempt for failure to comply with the district court's order. This fact, however, does not alter my view that the order is injunctive in both nature and effect.[1] Compression

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1. This case is distinguishable from *American Motorists Insurance Co. v. Levolor Lorentzen, Inc.*, 879 F.2d 1165, 1172-73 (3d Cir. 1989) in which we found the order granting Levolor Lorentzen, Inc.'s motion for partial summary judgment with respect to the obligation [of AMICO] to provide a defense was not appealable. In that case, the district court, while effectively defining AMICO's duty, did not order it to undertake the defense, thus the order could not be enforced *pendente lite* by contempt. In our case, there is an order that is enforceable by contempt.

Appendix C

Polymers should not have to rely on the Commissioner's willingness to risk contempt in order for Compression Polymers to have the dissolution of its trademark right reviewed on appeal.

The majority's conclusion that the district court's order "does not compel Compression Polymers to take any action, nor does the order restrain it from doing anything" exalts form over substance and turns a blind eye to the fact that Compression Polymers is denied the use of its federally registered trademark (federal statutory trademark protection) as effectively as if it were expressly enjoined by the district court from using its federal trademark. The practical effect of the district court's cancellation order is that Compression Polymers is prohibited from representing that it enjoys the benefits and protection of federal trademark registration as surely as if an injunction had been granted to Santana Products.[2]

Santana Products sought summary judgment with respect to its claim for cancellation of Compression Polymers' mark without seeking summary judgment relating to the trademark infringement, unfair competition and dilution claims. Clearly, the district court's order requiring cancellation of Compression Polymers' mark provided significant and substantive relief to Santana Products. Indeed, because of the district court's grant of partial summary judgment in its favor, Santana Products has been able, through strategic piecemeal litigation, to achieve one of its ultimate goals in this lawsuit, that is, the prevention of Compression Polymers' use of "Sanatec" as its trademark.

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2. The fact that Compression Polymers may still have federal common law or state trademark protection is of no import. Compression Polymers should not be required to forego the benefits of federal trademark legislation simply because other forms of trademark protection may be available.

Appendix C

In holding that the cancellation of a federally registered trademark is not immediately appealable, the majority has deprived Compression Polymers of the means for reviewing the propriety of the district court's cancellation order.[3] Without appellate review, Compression Polymers is simply not free, as Santana Products suggests, to continue its use of trademark "Sanatec." If Compression Polymers continues to represent that it has proprietary rights in the disputed "Sanatec" mark, it does so at the risk of being held liable for damages, and possibly at the risk of receiving other sanctions as well. Cognizant that this situation leaves Compression Polymers between the proverbial "rock and a hard place", I would recognize that the district court's order has the practical effect of granting an injunction, and conclude that the cancellation order is appealable.

A True Copy:
Teste:

Clerk of the United States Court of Appeals
for the Third Circuit

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3. Had Santana Products specifically sought an injunction against Compression Polymers' use of the "Sanatec" mark, we clearly would have had jurisdiction over this dispute. *See Wrist-Rocket Mfg. Co. v. Saunders Archery Co.*, 516 F.2d 846 (8th Cir.), *cert. denied*, 423 U.S. 870 (1975) (appellate court had jurisdiction to review order of cancellation and injunction against use of trademark). Santana Products, however, in its motion for partial summary judgment, did not seek an injunction enjoining Compression Polymers' use of the disputed mark. Rather, Santana Products asked the court to grant equitable relief, to the same effect, by directing the Commission of Patents and Trademarks to cancel Compression Polymers trademark registration for the mark "Sanatec".

APPENDIX D — JUDGE KOSIK'S ORDER GRANTING DEFENDANTS' RULE 62 MOTION FILED MARCH 19, 1993

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

CIVIL NO. 91-186
(Judge Kosik)

SANTANA PRODUCTS, INC.

Plaintiff

vs.

COMPRESSION POLYMERS, INC., SANATEC INDUSTRIES, INC., DELBERT P. KEISLING, JR., and ALAN P. KEISLING

Defendants

ORDER

NOW, this 19th day of March, 1993, after considering the Rule 62 motion of the defense to stay a portion of our Order of February 2, 1993 with respect to the cancellation of Trademark Registration No. 1,609,803, it is hereby,

ORDERED, that the cancellation of Trademark Registration No. 1,609,803 will be stayed.

s/ Edwin M. Kosik
Edwin M. Kosik
United States District Judge

APPENDIX E — JUDGE KOSIK'S ORDER GRANTING PRELIMINARY OR INTERIM RELIEF FILED FEBRUARY 18, 1993

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

CIVIL ACTION NO. 3:CV-91-186

(Judge Kosik)

SANTANA PRODUCTS, INC.,

Plaintiff

v.

COMPRESSION POLYMERS, INC., SANATEC INDUSTRIES, INC., DELBERT P. KEISLING, JR., ALAN P. KEISLING,

Defendants

ORDER

AND NOW this 18th day of February, upon consideration of Defendants' Motion for Preliminary or Interim Relief, and it appearing that no substantial harm will accrue to any other party if this Court grants the request of Relief, it is hereby ordered that the Motion be granted. Accordingly, until further Order of this Court, and at least until this Court has had an opportunity to review and dispose of the merits of Defendants' Rule 62 Motion for Stay Pending Appeal, it is ordered that paragraph one of this Court's February 2, 1993 Order, is Stayed. To the extent that Plaintiff has undertaken any steps to notify the Commissioner of Patents and Trademarks to cancel Defendants U.S. Trademark Registration No. 1,609,803, Plaintiff is instructed to notify the Commissioner of the existence and effect of this Interim Stay of Relief.

Appendix E

BY THE COURT:

s/ illegible

APPENDIX F — JUDGE KOSIK'S MEMORANDUM AND ORDER FILED FEBRUARY 2, 1993

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

CIVIL NO. 91-186
(Judge Kosik)

SANTANA PRODUCTS, INC.

Plaintiff

vs.

COMPRESSION POLYMERS, INC., SANATEC INDUSTRIES, INC., DELBERT P. KEISLING, JR., and ALAN P. KEISLING

Defendants

MEMORANDUM

We have before us the plaintiff's objections to the Magistrate Judge's Report and Recommendations of October 14, 1992. All parties have briefed the matter which became ripe for decision on December 2, 1992.

Plaintiff and defendants are competitors in the manufacture and sale of restroom partitions. Plaintiff's products are marketed under the name and mark "Santana" which has not been registered with the government. Defendants market their product under the federally registered trademark "Sanatec." Plaintiff filed an action alleging trademark, tradename infringement and unfair competition under the Federal Trademark Act, 15 U.S.C. § 1125(a). In addition, plaintiff's action seeks cancellation of the defendants' mark pursuant to Section 1052(d) and Section 1119, as

well as a number of pendent state claims. The factual basis for plaintiff's claims are stated in the Magistrate Judge's Report and need not be repeated here.

We referred a number of motions to the Magistrate Judge. Specifically, [1] plaintiff's motion for partial summary judgment seeking the cancellation of the defendants' registered trademark "Sanatec," in its referenced use; [2] a motion of defendants for leave to amend its answer to include a counterclaim and the allowance of additional discovery related to the counterclaim; [3] a motion of plaintiff to strike the defense motion to amend and the award of Rule 11 sanctions; and [4] plaintiff's motion in limine concerning the addition of a trademark expert to its witness list.[1]

On October 14, 1992 the Magistrate Judge filed a twenty-six page Report and Recommendation which recommended denial of plaintiff's motion for partial summary judgment, and the denial of plaintiff's motion to strike which also sought sanctions. He granted the defense motion to amend its answer to assert a counterclaim. Plaintiff filed timely objections. Defendants filed no objections.

When objections are filed to the Report of the Magistrate Judge, we are required to make a de novo determination of those portions of the Report and Recommendation to which objections are filed. We may accept, reject, or modify, in whole or in part, the Magistrate Judge's findings and recommendations. 28 U.S.C. § 636(b)(1) and Local Rule 904.2. Although our review is de novo, we are permitted by statute to rely upon the Magistrate Judge's findings and recommendations to the extent that we, in the exercise of sound discretion, deem proper. *United States v. Raddatz*, 447

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1. While the latter was addressed by the Magistrate Judge and decided adversely to plaintiff, it is not being contested at this time.

U.S. 667, 676, 100 S.Ct. 2406, 2413 (1980); *Goney v. Clark*, 749 F.2d 5, 7 (3d Cir. 1984).

Mindful of this standard of review, we feel obliged to accept in part and reject in part the Magistrate Judge's recommendation.

I.

With respect to plaintiff's motion for partial summary judgment seeking the cancellation of the defendants' registered name and mark "Sanatec," plaintiff objects to the failure of the Magistrate Judge to include an analysis of the relevant factors suggested by *Scott Paper Co. v. Scott's Liquid Gold.Inc.*, 589 F.2d 1225 (3d Cir. 1978), concerning the likelihood of confusion between the mark used by plaintiff and the registered mark used by defendants. Furthermore, plaintiff argues that since the defendants accept without objection the Magistrate Judge's finding that the plaintiff used the term "Santana" with reference to its partitions substantially before defendants, the latter were secondcomers in the market of restroom partitions utilizing the respective marks. Accordingly, a lower standard was applicable. In support of this contention plaintiff cites *Country Floors, Inc. v. Partnership of Gepner and Ford*, 930 F.2d 1056, 1065 (3d Cir. 1991), which agreed that where a newcomer enters an area already occupied by an established business, the "likelihood of confusion standard" is evaluated as a "possibility of confusion" in line with the rationale of *Telechron v. Telicon Corp.*, 198 F.2d 903, 908-9 (3d Cir. 1952).

Additionally, as a newcomer defendant had a duty to avoid all confusion in choosing its mark, including subliminal confusion. Indeed, if there was *any doubt* regarding the likelihood of confusion, these doubts must be resolved against the newcomer. *Blumenfeld Development v. Carnival Cruises*, 669 F.Supp. 1297

(E.D.Pa. 1987); *Koppers Co. v. Krupp-koppers,* 517 F.Supp. 836 (E.D.Pa. 1981). Regardless of the lower standard advocated by plaintiff, the court in *Country Floors, supra* p. 1064, concluded that "actual confusion usually implies a likelihood of confusion," referring to a case in the Fifth Circuit holding that "*very little proof* of actual confusion would be necessary to prove likelihood of confusion." [emphasis ours]. We find merit to the objection of plaintiff. Accordingly, we will reject and modify the Magistrate Judge's findings.

Considering the various *Scott Paper Co.* factors in assessing the possibility of confusion, there can be no doubt about the similarity of the products identified by the marks of each party. Restroom partitions serve a common function, and are utilized by both sophisticated purchasers as contractors, as well as unsophisticated customers as the do-it-yourself homeowners. The similarity in marks is apparent to both types of purchasers.

In this case the strength of the plaintiff's mark has been established over a period of time before utilization by the defendants of their mark. In addition, the Magistrate Judge found that plaintiff incurred great expense in advertising to gain wide recognition of its mark, and that it has achieved a reputation for producing a high quality product. Most significant is the Magistrate Judge's finding that nothing indicates a material issue of fact with regard to Santana's statement that the name "Santana" has been exclusively identified with the plaintiff.

There is no disagreement that Santana's sales are in the millions of dollars. Prior to the defendants' entry into the field of bathroom partitions, there was little confusion or mistake about plaintiff's product with the products of others. After the defendants entered the field with a similarly termed product, both mistake and

confusion was evidenced.[2] While the defendant challenged the plaintiff's statements of undisputed facts offered pursuant to Local Rule 401.4 as misstatements, the defense did not offer undisputed facts of their own which could lead us to believe that there exists a genuine issue to be tried. The Magistrate Judge only referred to eight of the incidents of confusion argued in the defense brief. He then characterized them as "minuscule." We might agree with the characterization if this were not a motion for cancellation of the defendants' registration under the lower standard of "possible confusion," as well as the lesser burden on plaintiff when the defendant is a second-comer as we discussed earlier.

The fact remains that there is evidence of confusion when orders or correspondence is misdirected. Mistakes which result from similarities in names is no less confusion. *Berkshire Fashions Inc. v. Sara Lee Corp.*, 725 F.Supp. 790, 797 (S.D.N.Y. 1989), *aff'd* 904 F.2d 33 (2d Cir. 1990), citing *John Harland Co. v. Clarke Checks Inc.*, 711 F.2d 966, 978 (11th Cir. 1983).

In further consideration of the *Scott Paper Co.* factors, there can be no dispute that the targets of both parties sales efforts are the same because the goods are essentially the same, at least in function. Although another factor is the intent of a defendant in adopting a mark, we do not believe this to be as essential in a cancellation motion as it may be with respect to the remaining counts where monetary damages are being claimed. In *Bell Publishing Corp. v. Bantam Doubleday Dell,* 17 U.S.P.Q.2d 1634 (E.D.Pa. 1990), the court held that intent was not necessary to a

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2. In the plaintiff's objections and brief to the Magistrate Judge's report, plaintiff points to the fact that since the submission to the Magistrate Judge, there are continuing incidents of confusion as evidenced by a mistaken order in August 1992. Defendants have not responded to this in their brief.

finding of confusion where the similarity of the two marks outweighs lack of intent to infringe or actual confusion. Such is the case before us.

For all of the above reasons, we find that the Magistrate Judge erred in denying plaintiff's motion for partial summary judgment seeking the cancellation of the defendants' registered trademark. Accordingly, we modify the Magistrate Judges' Recommendation to conform with our reasoning, and conclude that plaintiff's motion for partial summary judgment will be granted.

II.

With respect to the defense motion to amend its answer to include a counterclaim and to reopen discovery limited to the counterclaim, the Magistrate Judge concluded that the proposed counterclaim, while permissive, should be allowed.

We agree with the Magistrate Judge that since it was not until February and March of 1992 that the defense had "competent" evidence upon which to base its counterclaim, the motion to amend filed on March 17, 1992 was timely and appropriate under Rule 13 of the Federal Rules of Civil Procedure.

The substance of the counterclaim is that plaintiff unlawfully engaged in competition with defendants with respect to the marketing of partitions which qualify for a Class A certification. Such actions of the plaintiff are alleged to be clear violations of Section 43(a) of the same Federal Trademark Act implicated in the plaintiff's action against the defendants. We believe it appropriate for all claims to be litigated at the same time. To this end, we accept the Magistrate's Judges recommendation, and direct the allowance of the counterclaim and an additional ninety [90] days of discovery

limited to the counterclaim. The additional time for discovery is to run from the date of our Order in this Memorandum.

III.

Finally, plaintiff sought to strike the motion to amend the answer to state a counterclaim, as well as sanctions under Rule 11 of the Federal Rules of Civil Procedure. Since we agree with the granting of the motion to amend, the motion to strike and seeking sanctions will be denied.

Appendix F

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

CIVIL NO. 91-186
(Judge Kosik)

SANTANA PRODUCTS, INC.

Plaintiff

vs.

COMPRESSION POLYMERS, INC., SANATEC INDUSTRIES, INC., DELBERT P. KEISLING, JR., and ALAN P. KEISLING

Defendants

ORDER

NOW, this *2nd* day of February, 1993, IT IS HEREBY ORDERED THAT:

[1] the motion of plaintiff for partial summary judgment as to Count V of the amended complaint is granted, and the Commissioner of Patents and Trademarks is directed to cancel the defendants U.S. Trademark Registration No. 1,609,803 to the extent that it is related to restroom partitions;

[2] the defense motion to amend its answer to state a counterclaim, and for additional discovery is granted; discovery limited to the counterclaim will run for ninety [90] days from the date of this Order; and

[3] the plaintiff's motion to strike the defense motion to amend and for sanctions is denied.

Appendix F

s/ Edwin M. Kosik
Edwin M. Kosik
United States District Judge

APPENDIX G — REPORT AND RECOMMENDATION OF MAGISTRATE JUDGE DURKIN FILED OCTOBER 14, 1992

IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

CIVIL ACTION NO.: 3:CV-91-186

SANTANA PRODUCTS, INC.,

Plaintiff

v.

COMPRESSION POLYMERS, INC., SANATEC INDUSTRIES, INC., DELBERT P. KEISLING, JR., and ALAN P. KEISLING,

Defendants

REPORT AND RECOMMENDATION

Before the court are plaintiff's motion for partial summary judgment on original count seven of plaintiff's complaint (count five of its amended complaint) (Doc. No. 28); a motion of defendants Compresslon Polymers, Inc. and Sanatec Industries, Inc., for leave of court to amend the answer so as to include a counterclaim and to reopen discovery limited to the counterclaim (Doc. No. 49); plaintiff's motion to strike defendants' motion to amend, which plaintiff describes as a "false pleading", and for sanctions in the form of reasonable attorney's fees and expenses spent to respond to the motion (Doc. No. 60); and plaintiff's motion in limine for an order concerning proposed trial testimony of a trademark law expert. (Doc. No. 69).

By memorandum dated August 17, 1992, filed August 18,

1992, the court referred the above motions to the magistrate judge for report and recommendation. (Doc. No. 77).

By way of background, the plaintiff and defendants are competitors in the sale of restroom partitions. Plaintiff markets its product under the name or mark "Santana" which has not been registered with the federal government. Defendants market their product under the federally registered trademark "Sanatec". Plaintiff commenced this action against defendants for alleged trademark and trade name infringement and unfair competition. The amended complaint (Doc. No. 22, att.) contains 5 counts.

Count I is an action for alleged trademark and trade name infringement and other acts of unfair competition arising under § 43(a) of the Federal Trademark Act, 15 U.S.C. § 1125(a). Plaintiff alleges that defendants are marketing, selling and/or installing in this district and in interstate commerce restroom partitions under the mark "Sanatec" and trade name "Sanatec Industries, Inc."; that plaintiff has used "Santana" as a mark and as the salient part of its trade name in connection with the sale and installation of its products which also include restroom partitions long prior to the first use of "Sanatec" by the defendants; that by reason of plaintiff's prior and continuous use of "Santana" as a mark and as part of its trade name, "Santana" is exclusively identified with the plaintiff; that defendants' use in commerce of the mark "Sanatec" and trade name "Sanatec Industries, Inc." in connection with the marketing, sale and/or installation of restroom partitions has caused actual confusion in the purchasing public, resulting in the mistaken belief that plaintiff is the source of defendants' products and services; that continued use by defendants of "Sanatec" as a mark and as a part of the trade name which is confusingly similar to plaintiff's mark "Santana" and its trade name "Santana Products, Inc." is likely to create further confusion or deception in the minds of a substantial portion of the

purchasers and potential purchasers for restroom partitions; that defendants have committed acts of unfair competition by misleading purchasers with deceptive selling practices, including at least false representations of themselves as the plaintiff and through the use of their own selling materials in connection with those of the plaintiff; and that the defendants have created confusion among purchasers and potential purchasers of plaintiff's products deliberately and intentionally, and defendants will, unless enjoined by the court, continue these acts of unfair competition.

Count II, a pendent state law claim, is for alleged infringement of plaintiff's mark registered in the Commonwealth of Pennsylvania.

Count III, another pendent state law claim, is for alleged trademark and trade name infringement and other acts of unfair competition under the common law of the Commonwealth of Pennsylvania.

Count IV, another pendent state law claim, is for alleged injury to plaintiff's business reputation and for dilution of the distinctive quality of plaintiff's marks registered in the Commonwealth of Pennsylvania and its mark and trade name valid at common law.

Finally, Count V incorporates the allegations of the proceeding Counts and seeks the cancellation of defendants' registration of the trademark "Sanatec" pursuant to 15 U.S.C. § 1119. (Doc. No. 22).

As noted above, plaintiff's motion for partial summary judgment is directed at Count V, the cancellation count. For purposes of this motion, certain statements by plaintiff can be accepted. Although defendants argue that in the past the principals of Compression Polymers, Inc. and other corporate entities have

been involved in the manufacture and offer for sale of a wide variety of products, many of which had the prefix "Sana" or the suffix "tec" to describe the product, based on the documentation submitted by the parties in support of and in opposition to the motion for summary judgment, defendants do not appear to dispute plaintiff's statement of material fact that plaintiff used the term "Santana" on its products substantially before defendants began to use the name "Sanatec".

Plaintiff asserts that revenue from the sale of its product under the mark and trade name "Santana" are in the many millions of dollars, and that plaintiff has incurred great expense in advertising and in achieving wide recognition of its mark and trade name. Defendants admit that for the year ending December 31, 1990, Santana Products, Inc. plaintiff effectuated net sales in the amount of $19,809,658.00; that for the year ending December 31, 1989 the net sales of Santana Products, Inc. was $18,843,070.00, and that between November 17, 1989 and July 1991, Santana made approximately 5500 sales to various entities. (Doc. No. 37, p.9). Further, the defendants do not appear to dispute that the plaintiff has incurred great expense in advertising and in achieving wide recognition of its mark and trade name.

Plaintiff asserts that by virtue of its long history of providing excellent products and services in the bathroom partition field, it has developed a reputation for producing high quality and reliable products. Defendants' response to the statement regarding plaintiff's reputation is to point out that plaintiff's chief executive officer, general manager, and sales manager have all had alcohol problems in the past. However, this would not appear to create an issue of material fact in that it is the company's reputation which is here at issue, and defendants have presented nothing to show that there is a material issue of fact regarding the company's reputation for producing quality goods.

Appendix G

Plaintiff asserts that by reason of its continuous use of "Santana" as a mark and as a part of its trade name, "Santana" is exclusively identified with the plaintiff. Defendants' response to this statement is to point out that in correspondence in 1980-82, a company by the name of Sanymetal Products Company, also in the business of manufacturing the sale of bathroom partitions, contended that "Santana" is so close in sound and spelling to "Sanymetal" as to cause confusion and infringe on Sanymetal's registered trademark. Santana on the other hand contended that there was no significant similarity in either the sound, spelling or sight of those words that would result in them being confusingly similar. There is no indication that Sanymetal ever proceeded further with its contentions. Thus, this one instance of disagreement would not indicate that there is a material issue of fact with regard to Santana's statement that the name "Santana" has been exclusively identified with the plaintiff.

This matter therefore appears to boil down to the question of whether there are material issues of fact regarding a likelihood of confusion, or mistake among purchasers caused by the "Sanatec" name and mark.

Defendants first argue that plaintiff has not moved for summary judgment under Count I of its complaint relating to unfair competition and "likelihood of confusion" under the Lanham Act. Defendants argue that this is a passive admission that there is a dispute of material facts as to the issue of "likelihood of confusion" in customers' minds as to the source or origin of products sold by defendants. Defendants argue that instead the plaintiff has limited the motion for summary judgment to Count V regarding the inter-related cancellation claim which is governed by the same standard of review when assessing the question of "likelihood of confusion." Defendants argue that the court should not piecemeal the consideration of the question of "likelihood of

confusion" which should be decided by a jury as to all counts, and for this reason alone a grant of summary judgment would be inappropriate.

Plaintiff however contends that there is a different standard of review when evaluating whether to cancel the registered trademark compared with evaluating whether a claim of unfair competition premised upon likelihood of confusion, exists. Plaintiff's states that in opposing the motion for partial summary judgment on the cancellation count, defendants stress principles governing likelihood of confusion in cases of trademark infringement, and attempt to show that a high percentage of purchasers of plaintiff's and defendants' goods had professional backgrounds (sophisticated customers), and hence, would not likely be confused. Plaintiff argues, however, that since cancellations are based only on the registrant's goods as described in the registration, such a breakdown of purchasers is irrelevant where the description of goods does not contain a restriction as to class of purchasers. Plaintiff argues that accordingly, the applicable class of purchasers in the consideration of "likelihood of confusion" are those in all of the markets for such goods to all potential users of the goods. Plaintiff argues that in a cancellation inquiry, confusion at any stage of the distribution of goods in the marketplace including retail and wholesale distribution channels, purchasers and end users, must be considered.

Other than arguing this difference in classes of persons who may be within ambit of "likelihood of confusion", the parties do not indicate how else they differ with respect to the principles regarding "likelihood of confusion". The parties do not appear to disagree on general principles of law governing "likelihood of confusion" in that in order to cancel a mark there must be a likelihood of confusion, mistake or deception of purchasers caused by the mark. *Coca Cola v. Clay,* 324 F.2d. 198, (3d. Cir. 1963).

Appendix G

Actual confusion is not required in order to reach a finding of likelihood of confusion but actual confusion is strong evidence of likelihood of confusion. See *Roto-Rooter Co. v. O'Neal*, 513 F. 2d. 44, [sic] (5th Cir. 1975).

Even if plaintiff is correct that potential purchasers should not be limited to the sophisticated purchasers cited by defendants but should extend to all potential users, as hereinafter discussed, plaintiff does not appear to provide any undisputed factual evidence concerning such unsophisticated users or how they would be or have been confused. Thus, this matter may be viewed in relation to the evidence cited by plaintiff in support of its motion for summary judgment on the question of "likelihood of confusion" and the defendants' opposition thereto.

Plaintiff has cited to evidence which it feels shows confusion. Plaintiff notes that defendants' salesman and ex-Santana employee William Van Korff has admitted that over 40 sales totalling over $200,000.00 were made by Sanatec in Florida alone in the year 1990 to parties who were customers of Santana when Mr. Van Korff worked there. (Doc. 29, p.3.; Doc. No. 30, ¶6). However, that fact standing alone does not indicate that anyone was confused. This could simply be a situation where an employee of Sanatec contacted the customers of his former employer in an attempt to get them to switch their business to his new employer.

Plaintiff adds however that Van Korff, in at least one documented case, led a customer to believe that he represented Santana when in actuality he was attempting to solicit sales for Sanatec. (See Doc. No. 29, p. 3; Doc. No. 30, ¶7).

This assertion is premised upon a sales call which Van Korff had with one William R. Stokes, a maintenance supervisor at a state park in Florida, on whose deposition plaintiff relies to support

this assertion. (Doc. No. 30, att. dep.) However, as defendants point out, the deposition does not indicate that *Von Korff* led Stokes to believe that he represented Santana. The deposition indicates that Stokes was of the "understanding" that Von Korff was acting as a representative of Santana "at the *beginning* of the meeting." (emphasis supplied). There is no indication that Von Korff did anything to create this "understanding." Indeed, it is possible to infer from the deposition that it was Stokes "understanding at the beginning" that Von Korff was representing Santana because Santana had previously installed partitions at "Sebastian Inlet", a site apparently under Stokes jurisdiction as a maintenance supervisor. Stokes also testified that toward the end of the meeting, Van Korff presented Stokes with information "that led me to believe that he represented another company called Sanatec." When Von Korff left the meeting he provided Stokes with a brochure of Sanatec and the phone number. To the extent that plaintiff may be claiming that the jury could infer from this deposition that Von Korff had something to do with Stokes' "understanding", in view of the other matters discussed above, it would appear that it could also be inferred that he did not have anything to do with that "understanding", which was based on a prior transaction. Since it is not the function of the court to adjudicate genuine factual issues on a motion for summary judgment, in ruling on the motion, all inferences of fact from the proofs proffered must be drawn against the movant and in favor of the party opposing the motion. *6 Moore's Federal Practice* ¶56.15[3].

As an occasion where there was alleged *actual* confusion, plaintiff relies on the deposition testimony of Atlas Metal Products' vice president, Robert Harden Simpson, to the effect that in December 1990 a purchase order for $22,213.00 was mistakenly sent to Santana instead of Sanatec. (Doc. No. 29, p.3; Doc. No. 29, ¶8 and att. dep.) Plaintiff would have the court infer that this

demonstrates confusion as between the two marks. However, Mr. Simpson testified that the order was sent to Santana due to "clerical error" because the "secretary did not read order write up." (Doc. No. 30, attached deposition of Simpson). It is therefore possible to infer that this was the result of carelessness on the part of a clerk, rather than confusion. As mentioned above, such inferences must be drawn against the moving party.

As another example of actual confusion, plaintiff points to a check for $8,647.75 that was intended to go to Sanatec as payment for Sanatec Products but was mistakenly made out to "Santan Products" and was mistakenly sent to Santana, which subsequently had to send out a refund check to the mistaken company. (Doc. No. 29, p.4; Doc. No. 30, ¶9). Plaintiff would have the court infer that this mistake was caused by confusion of the marks. For this argument, plaintiff relies on interrogatories answered by Arlene Jollay, office manager for American Leisure Designs, Inc. (Doc. No. 30, att. interrog.). Ms. Jollay was asked if she sent the check in question addressed to "Santan Products, at P.O. Box 2021, Scranton, Pennsylvania" and she replied that she did. Aside from the fact that the check in question is in error in two respects in that it is directed to "Santan" company in Scra*b*ton, PA, (Doc. No. 30, Exh. to Jollay interrog.), there was nothing more asked of Ms. Jollay to explain why she may have issued a check in that manner. As noted above, a purchaser order was issued because the person writing the purchase order did not read the order write-up correctly. Thus, the events surrounding the issuance of this check to "Santan" at "Scrabton", PA, are left in the air.

In his brief, plaintiff states that "many other incidents involving confusion and/or mistake between the two marks in question have occurred . . . . all as evidenced in paragraphs 8 through 14 in the accompanying Statement of Material Facts." Plaintiff has not argued these other paragraphs in its supporting

brief. (See Doc. No. 29, p.4). Plaintiff, however, has stressed two of them in its reply brief. (Doc. No. 44). Plaintiff points to deposition of one Tanfield Brooks to support its proposed statement of fact that in or about March of 1990, Brooks of the Brooks Company had been dealing with defendant Sanatec Industries, and had a problem with some shop drawings that Sanatec was preparing for him. When Brooks desired to contact Del Keisling of Sanatec with regard to this problem, Brooks telephoned *Santana* instead of Sanatec. Plaintiff asserts that Brooks stated that there was a problem with his record keeping that led to him to mistakenly call Santana instead of Santec but that "the names were so similar that it didn't cross my mind at the time." (Doc. No. 30, ¶10, Doc. No. 44, p.6).

The deposition on written interrogatories of Brooks indicated that Brooks was asked whether there was a mistake in his record keeping which led him to telephoning Santana instead of Sanatec. His response was "yeah, there would be a problem in my record keeping, but I think that the names were so similar that it didn't cross my mind at the time." (Doc. No. 3, att. dep.). Although it may be possible to infer confusion from this statement, it is also possible to infer that the reason the call was made to the wrong party was a record keeping error. As noted above, on a motion for summary judgment, inferences are to be resolved against the movant and in favor of the non-moving party.

Plaintiff in its reply brief also cites the deposition of Polk in support of the proposed statement of fact that Polk telephoned Santana Products to obtain further information with regard to possible revisions to a quote "received from Sanatec Industries." When asked whether he was confused at the time that he telephoned between "Santana" and "Sanatec" he replied "Yes." (Doc. No. 30, ¶11; Doc. No. 44, p.6).

However, as defendants point out there was no foundation laid to explain what Polk may have meant by his "yes" answer, that is, was he confused because the two names were confusingly similar, because the products were similar, because the companies were similar, or for some other reason.

The matters advanced by plaintiff in support of the confusing arguments set forth in ¶12 through ¶14 of the statement of material facts have been addressed by defendants, (Doc. No. 37, pgs. 40-42, Doc. No. 37, p. 29), and once again, any inferences drawn against the movant and in favor of defendants would not indicate that there are undisputed factual issues regarding confusion.

In summary, plaintiff's statement of facts include approximately eight examples of what plaintiff feels to be instances of actual confusion and other matters. When measured against the dollar amount of plaintiff's net sales as well as its sales to various entities (5500) during a two year period, these examples of confusion would appear to be minuscule. *See B.D. Communications, Inc. v. Dial Media. Inc.*, 429 F.Supp. 1011, 1014, *et. seq.* (S.D.N.Y. 1977). In any event, as noted above, to the extent that inferences can be drawn from these examples in favor of either side, on a motion for summary judgment, the inferences must be drawn against the plaintiff. The motion for summary judgment should therefore be denied.

Turning now to the defendants' motion to amend their answer to include a counterclaim and to reopen discovery limited to the counterclaim, defendants seek to assert a claim to the effect that during the past few years, defendants have been engaged in competition with plaintiff in the manufacturing, processing, promotion and sale of bathroom partitions which qualify for Class A certification; that Class A certification requires that the partitions meet strict fire resistant or retardant standards; that

defendants have been unable to successfully compete with plaintiff because they had been unable to manufacture and process partitions which meet Class A specifications at a cost that allows defendants to be competitive with the prices offered by plaintiff for the sale of its purported Class A materials; that recently, defendants received information confirmed by recent tests (February and March 1992) that partitions sold by plaintiff and represented to be within Class A specifications in fact fall significantly below Class A specifications; that it is for this reason that plaintiff was able to sell partitions, which purportedly met Class A specifications, at a lower price than defendants were able to manufacture partitions which in fact met Class A specifications; that the actions of plaintiff in misrepresenting its partitions in meeting Class A specifications is a violation of § 43(a) of the Federal Trademark Act, 15 U.S.C. § 1125; and that plaintiff's violations have damaged defendants by reason of their having been unable to compete successfully with plaintiff in the past in the sale of Class A goods.

Defendants argue that their counterclaim is "probably" compulsory, see Rule 13(a) Fed. R. Civ. P., but also advance argument that it should be allowed even if permissive. Plaintiff contends that the counterclaim is clearly permissive, and that since defendants request at least ninety additional days for the issue raised by the counterclaim to be subject to discovery, defendants in effect admit that the extensive discovery already completed did not address the new issue and that separate trials would not involve any duplication of time and effort. Plaintiff argues that the motion to amend should be denied on these grounds alone.

The magistrate judge believes that the proposed counterclaim is permissive. It asserts that plaintiff misrepresented the quality of its partitions so as to obtain an unfair competitive advantage. This is unlike the other § 43(a) issues and thus does not appear to be a claim which "arises out of the transaction or occurrence that is the

subject matter of the opposing parties' claim." Rule 13(a). Moreover, defendants, in one of their arguments, indicate that allowing the amendment to assert the counterclaim will save judicial time and effort since if the amendment is not permitted, the claim set forth in the counterclaim will be the subject of another lawsuit. However, if it were truly a compulsory counterclaim, and if defendants were precluded through some fault of their own from raising the counterclaim in this action, it does not appear that it could be the subject of a subsequent action. See *Moore's Federal Practice,* ¶13.33 (Rule 13(f), dealing with omitted counterclaims, will find its most useful application in the case of compulsory counterclaims inasmuch as a party could later be met successfully with a plea of *res judicata* in a suit on a claim within Rule 13(a) which he had failed to plead); *SFM Corp. v. Sundstrand Corp.*, 99 F.R.D. 101 (N.D. Ill. 1983); (Denying leave to amend to assert a compulsory counterclaim would bar it forever); *Barnes Group Inc. v. C. & C. Products. Inc.*, 716 F. 2d. 1023 (4th Cir. 1983).

In any event, Rule 15 governs the amendment of pleadings while Rule 13(f) governs amendments to set up counterclaims omitted through oversight, inadvertence or excusable neglect. However, regardless of which Rule is applied, amendments should be liberally granted where the moving party has not been guilty of bad faith and is not acting for the purposes of delay, the opposing party will not be unduly prejudiced and the trial of the issues will be not be unduly delayed. *3 Moore's Federal Practice,* ¶¶13.33, 15.07[3], 15.08[2]; *Sundstrand, supra.*

The parties have extensively briefed this matter and have submitted a substantial number of exhibits. Much of their argument goes to each side's accusing the other of misstatements and misleading the court. Other arguments go to whether or not defendants could possibly prevail on the counterclaim and whether they could establish any legal injury or damage. For example,

plaintiff argues that assuming that it made sales in New York City based on false claims, defendants could not have made such sales, and therefore could not have sustained injury, because they did not have a required "MEA" number even as late as March 1992. Defendants reply that they do not contend that plaintiff's misrepresentation or defendant's injury relates to the New York City market alone, and that in any case, Sanatec has had verbal authorization to supply New York City jobs since August 1991. Defendants submit some documentation to support the latter statement. Plaintiff would have the court consider many and varied matters which it urges would preclude the defendants from prevailing on their counterclaim and thus would have the court conduct almost a mini trial with respect to the issue raised by the counterclaim. However, bearing in mind that the motion is solely one to amend it would appear that the inquiry should be whether the salient allegations assert a claim and whether the defendants are guilty of laches or acting for delay, and whether plaintiff will be prejudiced and the trial unduly delayed.

In the proposed counterclaim, defendants allege that they have been involved in the manufacturing, marketing and selling of Class A goods since in or about late calendar year 1989 through to the present. However, defendants admit that they have appeared to actually commenced this competition in calendar year 1990. Plaintiff has not disputed that defendants have been involved in the manufacture and marketing of Class A goods since some time in 1990. Thus, although this allegation, as amended, may shorten the damage period, the allegation would, if proven, establish the period of potential competition between the parties.

Further, from a pleading standpoint, there is not yet a dispute that the test performed on plaintiff's product in February and March 1992 indicated that the product did not meet Class A specifications. There is not yet a dispute that these test results were

valid. There also does not yet appear to be a dispute that defendants did not learn of these test results until February and March 1992, or shortly before it filed its motion to amend to assert a counterclaim. Finally, there is not yet a dispute that the plaintiff represented the goods to be Class A while in fact they were not. Also, from the standpoint of pleading, there is not yet a dispute as to the allegations that plaintiff as late as early 1992 was certifying its product as Class A.

With respect to when defendants knew or should have known those facts which gave rise to the counterclaim, defendants contend that it was not until February 1992 that they received any competent evidence which would support the claim when Thomas Esposito, a long time customer of plaintiff, approached defendants and asked for assistance in supplying a Class A product if, in fact, Santana's Products were non-conforming. The tests performed in February and March of 1992 verified that three separate products supplied to Esposito by plaintiff did not comply with Class A standards. Thus, it is defendants' contention that they filed the counterclaim as soon as this "competent" evidence verified Esposito's beliefs that plaintiff's products did not conform.

In its brief in response to their motion to amend, plaintiff accuses Esposito and other entities of conspiring against plaintiff in raising these "libelous" charges. (Doc. No. 62, p.10). In any event, plaintiff argues that defendants were aware of the issue raised by the counterclaim at least by November 1991 when they hired Robert Lynch, an ex-Santana employee, who had been handling the fire retardency matter for Santana. (Doc. No. 62, p. 11). Defendants however contend that this is merely a naked assertion by plaintiff, since defendants were not given information involving the counterclaim by Robert Lynch when he was hired by defendants in November 1991, after having been terminated by plaintiff and its CEO six months earlier. (Doc. No. 65, p. 10). At

this point, it appears that plaintiff is merely assuming that Lynch would have disclosed this information to his new employer.

In the plaintiff's reply brief in connection with its related motion to strike defendants' "knowingly false pleading" (the motion to amend to assert the counterclaim and the proposed counterclaim), plaintiff now takes the position that defendants knew of the alleged non-conformance of its product to "Class A" standards when on May 13, 1991 Jerry Wilcox wrote a letter to Del Keisling of Sanatec in which Wilcox informed Keisling that he is no longer a sales distributor for Santana because in connection with a certain job, Santana was supposed to have supplied Class A materials whereas "we found that the material is not fire resistant as Santana advertised or they substituted their standard non fire rated material on this job." Wilcox indicated that he was therefore interested in being set up as distributor for Sanatec and requested binder and pricing information. (Doc. No. 68, p.2 and Exhibit A). Since this argument and supporting letter were made in plaintiff's reply brief in connection with their own motion to strike, and since the rules of this district do not permit further briefing except by leave of court which defendants have not requested, defendants have not had the opportunity to address this new date advanced by plaintiff.

In any event had the defendants asserted a counterclaim on the basis of the Wilcox letter alone, that might have been considered an unreasonable basis on which to allege misrepresentation of product. Wilcox indicated only that his own test indicated that the material is not Class A material "as advertised" *or* that there was a substitution of defendants' non-fire rated material for the Class A material. Any such substitution could have been the result of mistake or other factors. Keisling, to whom the letter was written, states in his affidavit that to his knowledge it was not until February 1992 that any defendant was in receipt of any test results

performed on any Santana manufactured product represented to be a Class A; that defendants prior to making any claim of wrong or violation of law against Santana believed it appropriate to have in hand several confirming and corroborating test results; and that it was not until either March 13th or 16th 1992 that the defendants received a copy of the third test report. (Doc. No. 66, Exhibit D). These tests were performed on materials supplied to Esposito and for which plaintiff had, on February 3, 1992, certified that the materials supplied were Class A. (Doc. No. 66, aff. of Esposito). Thus, since there were now affirmative certifications of the material as Class A and because these certifications proved false as a result of tests, it would appear that only then would defendants be in a position to assert the type of claim that they have now made. It may be that plaintiff can establish an earlier date. However once again, we are only concerned with a pleading.

Plaintiff argues that the proposed counterclaim would add new parties to this case such as "plaintiff's parent company, Laminations . . . . as well as entities such as Esposito Sales Limited of New York, Mr. Esposito or other entities who appear to have conspired against plaintiffs in raising this libelous charges, and ex-Santana officer Robert Lynch, who is at the center of the controversy and who would likely be added as a third party defendant to the counterclaim." Plaintiff argues that this in turn would entail lengthy discovery which would unjustifiably delay the trial of the trademark issues. (Doc. No. 62, p.10).

The defendants have asserted the counterclaim only against the plaintiff. For the proposition that Laminations may have to be a party, plaintiff points only to a brief statement by defendants' counsel in an April 1, 1992 letter inviting settlement discussions. (Doc. No. 62, Exh. C). There is nothing to indicate why Laminations would have to be made a party, and indeed, defendants have not yet made that concern a party as they

suggested they might. Further, as far as Mr. Esposito or his firm or Mr. Lynch are concerned it cannot be seen how any "conspiratorial libelous" charges made by them would be a proper issue in this case so that they would have to be made parties.

Moreover, defendants seek only a ninety day period within which the sides could engage in discovery with respect to the counterclaim. Thus it does not appear that this counterclaim would unduly delay the disposition of this case. Finally, it does not *appear* that such a relatively short delay would prejudice plaintiff.

It appears, therefore, that defendants' motion to amend the answer to assert the counterclaim should be granted. Since plaintiff's related motion to strike and for sanctions arise out of the same attempt on defendants' part to amend the answer, and since the magistrate judge believes that the motion to amend should be allowed, plaintiff's motion to strike and for sanctions should be denied.

Turning now to plaintiff's motion in limine, plaintiff seeks an order that plaintiff may present expert testimony regarding trademark law and practice in its *case in chief* as it relates to the issues in the complaint, including, *inter alia*, the issues of trademark infringement and unfair competition including secondary meaning, likelihood of confusion, and willful infringement. (See proposed order).

Plaintiff notes that it wasn't until February 1992 that defendants advised that they will rely upon the advice of trademark counsel, Mr. Westerhoff, as a defense to the charge of willful infringement. Plaintiff notes that it assumes that it may present *rebuttal* testimony of a trademark law expert to show, *inter alia*, that Westerhoff's advice was a belated "whitewash" and "grossly incompetent within its four corners." Plaintiff feels however that it

should be able to present such testimony in its *case in chief* to rebut the matters in Westerhoff's affidavit on which defendants' purportedly relied. Plaintiff indicates that this expert testimony would also be proffered on the issues of willful trademark infringement, unfair competition including secondary meaning, and likelihood of confusion. Plaintiff also indicates that the expert would be used to show how defendants' contention that they relied also on prior use of the name Sanatec on unrelated goods, that is cutting boards, is misplaced.

Defendants counter that aside from the "willful infringement" issue, plaintiff knew of every one of the other issues long before the issue of the opinion of Westerhoff arose, yet neglected to retain and present a legal expert until this late date. Defendants argue that if such testimony were permitted, they should be given a reasonable opportunity to review the expert's report and prepare an expert report of their own, all on issues long known to plaintiff, thus reducing this litigation to a "battle of experts."

As regards the "willful infringement" issue, defendants state that they do not intend to introduce the opinion of Westerhoff for the truth of the matter asserted. Rather, Westerhoff's opinion would be introduced to demonstrate that the defendants acted reasonably and therefore could not have committed *willful* infringement in that as soon as plaintiff raised the question of infringement, defendants contacted Mr. Westerhoff for legal advice as to whether or not their use of the name Sanatec was proper. Westerhoff produced an opinion that the use was proper. Defendants argue that the issue of willful or intentional infringement is an issue for the finder of fact and the only relevant inquiry should be whether or not the defendants reasonably and in good faith relied upon the opinion of the trademark counsel. Defendants also argue that receiving expert testimony on the issues of "secondary meaning" or "confusion", long known as issues to

plaintiff, would serve to confuse a fact finder, especially if the fact finder is a jury. They note that "secondary meaning" means that in the minds of the public, the primary significance of a product, feature or term is to identify the source of the product itself, and on the issue of "confusion" courts have held that the testimony of industry insiders should be given little weight in that the more relevant question is what the lower stratum of the relevant buying class believes.

Plaintiff admits that it has found no Third Circuit authority for the use of such trademark law expert testimony. Moreover, both sides agree that whether plaintiff should be permitted to use such testimony in its *case in chief* is discretionary with the court. The magistrate judge believes that plaintiff's motion should be denied.

Although plaintiff argues that confusion of the jury is not weighty consideration since the court has indicated that it is going to use only an advisory jury and that such jury's findings would not be binding upon the court which would remain the ultimate fact finder, nevertheless the jury will be present and certainly the jury's advice should not be the product of any confusion. Moreover, defendants have indicated that they do not intend to offer the Westerhoff opinion on the truth of the matters contained therein, but only on the question of whether it was reasonably for defendants to rely on that opinion in defense of the issue of "willful" infringement. Although plaintiff feels that in rebuttal he can show that this opinion was "incompetent within its four corners" through the use of expert testimony, the more important question is defendants' state of mind and not the competency of their counsel. Any expert opinion offered by plaintiff in its case in chief with respect to all of these issues would undoubtedly be met by expert testimony to the contrary and the case would devolve into a battle of experts.

Appendix G

Both sides agree that whether this testimony should be allowed in plaintiff's case in chief is discretionary with the court. The magistrate judge believes that the court should exercise its discretion in barring this testimony from the case in chief.

On the basis of the foregoing,

IT IS RESPECTFULLY RECOMMENDED THAT:

(1) Plaintiff's motion for partial summary judgment on the issue of cancellation of the trademark be denied;

(2) Defendants' motion to amend its answer to assert the counterclaim be granted;

(3) Plaintiff's motion to strike the motion to amend and for sanctions be denied; and,

(4) Plaintiff's motion in limine for an order permitting the proposed trial testimony of the trademark law expert be denied.

s/ Raymond J. Durkin
Raymond J. Durkin
United States Magistrate Judge

Dated: October 13, 1992